

Housing markets in the eurozone

While all eurozone economies saw major contractions in economic activity in 2020, the impact on residential real estate prices was diverse. Some countries saw growth slowing down while others saw it accelerate. Here is an overview of some key developments



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Germany: Prices set to increase further

House prices in Germany don't seem to be showing any signs of levelling off. The year-on-year change in the statistical office's house price index in 3Q20 reached 7.8% - its highest level since 2016 (8.4% in 4Q). The increase was driven mainly by existing house prices, fitting in nicely with monthly price data from home sales, which has only sporadically dipped below 10% YoY since mid-2019.

Existing houses driving the increase is an indication that hotspot cities with limited space for more construction are still the main force behind elevated prices. Speculation that the pandemic could slow down or even reverse house price growth has failed to materialise so far.

With record levels of savings, amassed mainly by affluent consumers, and low-interest rates, prices look set to increase further.

France: Property prices to rise by 1.5% to 2%

In 2020, the French residential property market remained buoyant despite the lockdowns and the 12-week ban on property visits.

Prices increased by 4 to 5% over the year, however, the momentum could slow down in 2021 as the delayed effects of the crisis are felt, particularly on the labour market and household purchasing power. The tightening of macroprudential rules could also limit price increases.

At the same time, the supply of new housing is likely to be under pressure as a result of the construction sector closing down during the first lockdown and the fall in productivity in 2020. This is likely to put pressure on new house prices, especially as new environmental regulations come into force this year and increase construction costs.

We expect property prices to rise this year, but less than they did in 2020, by around 1.5% to 2%. We also expect less dynamism in large cities than in medium-sized cities, as has been the case since the end of 2020.

Italy: Marginal contraction in 2021

The pandemic and the 8.9% GDP contraction has had a limited impact on the Italian housing market in 2020.

During the first wave, the introduction of labour market support schemes helped support disposable income while banks, helped by state guarantees on part of their new assets, did not tighten credit standards. Despite transactions shrinking rapidly, house prices proved resilient for most of the year and increased on average by 1.5% over 2020.

Overall, we expect a marginal contraction in average prices over 2021

The protraction of labour market support schemes and redundancy ban should continue to provide support in 2021, but their potential end over the second half of the year might increase prudence. The scope of a rebound in transactions and prices over the course of the year heavily depends on the vaccination programme.

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Spain: Price growth to moderate in 2021

House price growth cooled significantly in 2020. According to the house price index of Eurostat, house prices grew by 2% in 2020, compared to 5% in 2019 and 7% in 2018.

Given the difficult economic situation ahead, we expect price growth to moderate in 2021 but we don't expect a sharp contraction. Compared to the financial and eurozone crisis (when prices dropped by 35% between 2007 and 2014), the impact of this recession on Spanish residential real estate looks minor. But having said that, market foundations are much stronger than they were back then.

At the beginning of 2020, the financial situation of households and companies in the sector was healthier than in 2008. There was also no construction boom in the years before Covid-19, as was the case before the financial crisis. On top of that, mortgage rates are expected to remain low. One issue that could lead to more downward pressure is Brexit.

From 2021 onwards, Britons are only allowed to stay in the EU without a visa for 90 days within a 180-day period, leading to lower demand for Spanish houses by Britons. Still, it could also lead to more homes owned by Britons coming to the market, especially in Costa del Sol and Costa Blanca.

The Netherlands: Housing market to cool in 2021

Despite the strong year for the Dutch housing market in 2020, uncertainty remains exceptionally high due to the pandemic.

Further interest rate decreases, increased activity by investors and confidence in the housing market explain why prices in 2020 on average increased by 7.8% (2019: +6.9%). The number of existing homes sold increased to 236,000 (2019: 219,000). Although the tightening of the housing market increased, the housing shortage (the difference between the size of the housing stock and the number of potential households) declined by approximately 30,000 homes in 2020, out of a total shortage of 330,000 homes.

This is mainly due to the lower inflow of foreign labour migrants. As a result, household growth stalled around 44,000 (-40% compared to 2019), while growth of the housing stock amounted to 75,000. A further decline of this shortage may lower housing demand in 2021. This is one of the main reasons why we assume a cooling down of the housing market in 2021, with an average price increase of 5.0% and home sales down 10% compared to 2020. The surrounding uncertainty, however, is higher than normal. The pace of economic recovery, level of confidence and path of interest rates will largely determine the impact of the crisis on the housing market in 2021.

Belgium: Downward pressure on yields

At the beginning of 2020, some dark clouds were emerging over the Belgian real estate market: The economic outlook at the time was not great, the National Bank of Belgium estimated that Belgian houses were overvalued, an important tax break was scrapped in Flanders and new restrictions were introduced for mortgages. And then the Covid-19 pandemic caused damage all over the world. But while the Belgian economy contracted sharply, residential real estate prices proved to be resilient.

In fact, price growth accelerated to about 5%, from 4% in 2019. The income support provided by the government, low mortgage rates, active investors and a higher willingness to pay can explain this. For 2021 and 2022, we expect house price growth to cool down to 3% and 2%, respectively. We expect the unemployment rate to increase as government support measures are phased out. We also think that investors will be less active as it becomes more difficult to achieve an attractive yield. Indeed, higher house prices coupled with weaker income growth that make asking higher rents more difficult puts downward pressure on yields.

Portugal: House price to cool down in coming quarters

Since 2016 house price growth was very dynamic. Indeed, house prices grew by 39% between 2016 and 2019 (based on the house price index of Eurostat) on the back of a good economic

performance and foreign interest in Portuguese real estate. House price growth cooled down from 10% YoY in the first quarter of 2020 to about 7% in the third quarter. The Covid-19 crisis obviously makes it more difficult for foreigners to buy Portuguese real estate.

We expect that house prices will cool further in the coming quarters due to the difficult economic times ahead, but we do not expect a major price correction. First, low supply coupled with higher demand will continue to be a feature of the market. Second, the suspension of loan repayments is extended from March 2021 to September 2021 and so this will limit the downward pressures. Third, when compared to other European countries, Portuguese real estate remains competitive.

Austria: Real estate price to rise in rural areas

In Austria, the residential real estate market continued to grow as demand for detached houses, as well as houses with a garden or terrace, increased. In 2020, house prices increased by about 11.6% YoY.

Looking ahead, we expect real estate prices to rise especially in rural areas, as the demand for detached houses and dwellings including a garden already increased during the last year.

However, affordability is expected to decrease, as strong increases in income are not expected for the time being and financing conditions may worsen, due to stricter lending criteria. [According to the OeNB's Financial Stability Report](#), terms and conditions for loans to households for house purchases continued to tighten during the fourth quarter of 2020.

Greece: Expect house price inflation to fall

The Greek housing market entered 2020 while still benefiting from previous reductions in ANFIA property and of tax incentives for non-EU house purchasers. Also, Greece was hit by Covid with a delay with respect to the rest of the eurozone, leaving 1Q20 little affected by the economic shock. The safety net deployed for workers by the government in the form of short term work and a temporary redundancy ban also helped support household disposable income. All this should have allowed house prices to grow at a very respectable 4% YoY clip over 2020.

However, the housing inflation profile declined, which might continue over 1H21, as pandemic uncertainty continues with the new variants. As elsewhere, the success of vaccination will be critical to determining the economic exit speed, but might not work its magic before 4Q21. We expect that Greece will manage to avoid seeing house prices contract again in 2021, but anticipate that average yearly house price inflation will fall nonetheless to the 1.2% area.

Ireland: Supply shortage driving prices higher

The Irish housing market continued to perform well in 2020 despite the pandemic. Price growth, which had been on a declining trend since 2018, saw a pickup in 4Q 2020 to a modest 0.6% YoY. Household incomes, propped up by government support, increased over the first three quarters of the year, which provided significant support to the housing market. For next year, price growth seems set to continue as supply shortages remain a large theme in the Irish housing market.

Finland: Housing market outlook remains positive

The Finnish housing market has seen price growth accelerate for one-family houses. The pace picked up to a strong 5.4% in the final quarter of 2020, which is the fastest growth seen since 2011.

That comes on the back of positive household disposable income growth, increased savings and low-interest rates. The outlook is helped by expectations of a quick economic recovery to pre-pandemic levels. Downside risks like unemployment trending somewhat higher due to withdrawal of government support, and higher interest rates do dampen the outlook somewhat though.

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